Thoughts On The Future Of Retail

In a year that saw interesting technological developments and emerging product trends, the single most talked about issue was the conflict between online and brick-and-mortar retailing. Local retailers, both large and small, are unquestionably feeling the heat from fast-growing online competitors. Their stress is compounded by the fact that they are required to collect sales tax, while their mail order competitors are not. Add to that the still struggling economy, and it's understandable that the mood among traditional retailers is somewhat less than buoyant. The future trajectory of these retail trend lines will be affected by a number of unknown variables. Will Congress act to force mail order retailers to collect sales tax? Will rising fuel prices prompt the mail order sellers to curtail free shipping? And who knows what else. Even given our limited forecasting ability, we think it's entirely premature to write off the brick-and-mortar m.i. store.

The industry's retail distribution network has been in a continuous state of evolution for over a century, adapting to new products, new technologies, and changing consumer preferences. The development of the automobile and the move to the suburbs spelled the end of the once dominant large downtown music store. Prosperity and an expanding range of products gave rise to increasingly specialized retail formats—school music experts, guitar only stores, and church organ specialists to name a few. The number of narrowly focused retailers has only increased with the internet, as evidenced by the rise of retailers selling only guitar strings, left-handed guitar stores, and specialty purveyors of vintage saxophones.

This evolutionary process has generally mirrored larger trends in retail. The dramatic growth of regional shopping malls gave rise to a network of highly profitable mall-based home organ stores in the '60s and '70s. It's also no accident that the emergence of Guitar Center coincided with the growth of other "big box" retailers like Home Depot and Toys R Us. Looking at the current retail landscape offers some interesting clues into where future opportunities may lie.

Amazon's torrid growth has been well documented. Its combination of low prices, tremendous selection, and convenience are a compelling draw. However, if convenience and cost savings were the only things driving purchasing decisions, why would a consumer battle traffic to get one of the 400 Apple stores, and then pay sales tax too, when they could save money and avoid the hassle by going online? Apple management provides a ready answer. They say consumers are looking for an entertaining experience, crave personal interaction, and value technical help. Delivering those services in a brick-and-mortar store helps burnish the Apple brand, which is why they will open 100 new stores over the next 12 months.

The desire for a positive, "non-virtual" retail experience is also evident among the m.i. customer base. Brian Swerdfeger, vice president of sales and marketing for Taylor Guitars, says that "creating a retail experience" drove double-digit sales growth at the company last year. "The high-end guitar buyer is hungry for an experience that extends beyond their computer screen," he explained. "They want a personal connection with other guitar enthusiasts, and they want social interaction when they make their buying decision. It's something that only a good local store can provide."

Roland Corporation has observed a similar phenomenon. Chris Bristol, CEO, noted, "Salespeople who really know what they're talking about are the ones customers will hang around a store waiting to see. Sales and profits will go to those who can eliminate confusion in the minds of the customer and help them find solutions." This simple truth is why Roland has invested heavily in a training program to create more salespeople "who know what they're talking about."

An Apple executive, who asked not to be named, went so far as to say that m.i. stores have an "amazing and untapped secret weapon." He added, "They're staffed by musicians who can explain the stuff. Best Buy, Amazon, and even the Apple stores can't make that claim."

These three observers are on to something, and we suspect that in the coming years, success will accrue to those brick-and-mortar stores that provide a particularly satisfying customer experience, whether it's through education, personalized service, special events, or some other "value add."

Customers have more choices than ever, not just in the range of products available, but in where and how they can buy them. Depending on their mood at the moment, they might choose the convenience of an impersonal online merchant; white glove, one-on-one service from a sales professional who knows their name; a sprawling big box retail store; or an unusual specialty outlet. These options may be great for the consumer, but they're hell for retailers. Think of it like an ice cream counter: Every time a new flavor is added, vanilla and chocolate lose market share. These days, traditional brick-and-mortar retailers are the industry's "vanilla and chocolate," and they are being forced to contend with an expanding number of new retail "flavors." (As an aside, brick-and-mortar stores are not the only ones wrestling with increased competition. As reported on p. 70 of this issue, online sales leader Musician's Friend complains about losing ground to other online merchants.)

It's unrealistic to expect the number of retail "flavors" to abate anytime soon. That energy would be better expended on trying to develop a business model that resonates with consumers. The good news is that it can be done; the bad news is that it isn't always easy. That's why evolution is referred to as "survival of the fittest."

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